Q. ARE YOU THE SAME SHARON G. SCOTT THAT PREVIOULSY FILED PRE-FILED TESTIMONY IN THIS CASE?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. The purpose of my supplemental testimony is to inform the Commission of a settlement that the Staff and the Company have agreed upon for the Commission's consideration. The numbers contained herein were developed solely for the purposes of a compromise agreement. Should the Commission reject the settlement proposal, then Staff reiterates its numbers and proposals contained in direct testimony.

Q. MS. SCOTT DID YOU PREPARE ANY EXHIBITS IN CONNECTION WITH THE PROPOSED SETTLEMENT AGREEMENT?

A. Yes, I have attached four exhibits that detail the results of the proposed settlement. The Exhibits are Audit Exhibit A, entitled Operating Experience, Rate Base and Rates of Return, Audit Exhibit A-1, Explanation of Accounting and Pro Forma Adjustments, Audit Exhibit A-2, Customer Growth Computation and Audit Exhibit A-5, Return on Common Equity. The Exhibits detail the results of the proposed settlement agreement.

Q. PLEASE DESCRIBE THE PROPOSED SETTLEMENT AGREEMENT?

A. The Company agreed to lower the amount of the proposed requested increase from $92,114,000 as originally filed to $62,071,000. The Company also agreed to lower the requested return on common equity from 11.75% to 10.90% for purposes of setting rates in this proceeding. However, as a part of the settlement agreement the Company is requesting that the Commission approve a range for its return on common equity of 10.40% to 11.40% with rates set at 10.90%. In exchange for the above reductions the Staff agreed to accept the Company's proposed adjustments to turbine maintenance, selective catalytic reactor expenses, NERC standards and Jasper operating and maintenance expenses. The Staff also agreed to include the unamortized GridSouth costs in rate base. The Staff agreed to remove its adjustment to average moving expenses. The Staff lowered the adjustment for officer pay and incentive increases to exclude only the officers that are listed in the Company's proxy statement.

Q. PLEASE DESCRIBE THE EFFECTS OF THE SETTLEMENT AGREEMENT ON THE CALCULATIONS IN EXHIBIT A?

A. As shown in column (1), using total electric operations per the Company's filing, the Staff computed net operating income for return of $327,221,000. The Staff computed a rate base of $4,014,886,000 for the Company's total electric operations. The Staff computed the rate of return on rate base to be 8.15% on total electric operations.

Shown in Column (2) are the accounting and pro forma adjustments proposed by the Staff on a total electric basis.

Column (3) presents the Company's as adjusted total electric operations. The Staff computed net operating income for return of $283,467,000. The Staff computed the adjusted total electric rate base to be $3,797,255,000. The Staff computed the as adjusted rate of return on such rate base to be 7.47%.

In Column (4) the Audit Staff computed the Company's total retail operations based on the cost of service study recommended by the Staff's Utilities Department. Net operating income for return was computed to be $319,628,000 on a retail basis and retail rate base was computed to be $3,831,455,000. The Staff computed the return on retail rate base to be 8.34% prior to making accounting and pro forma adjustments.

Column (5) presents the Staff’s accounting and pro forma adjustments on a retail basis. Such accounting and pro forma adjustments are described in Staff’s Audit Exhibit A-1.

Column (6) presents the Company’s retail operations as adjusted by the Staff. The Staff calculated net operating income for return of $278,258,000 on an as adjusted retail basis. The as adjusted retail rate base was computed to be $3,626,305,000. The Staff computed the as adjusted rate of return on retail rate base to be 7.67%.

Column (7) presents the Staff’s computation of the Company’s net proposed increase of $51,149,000. The increase consists of $62,071,000 for the proposed increase and an adjustment to reduce the proposed increase by $10,922,000 for fixed capacity charges that the Company will incur for gas service to the Jasper facility.

Column (8) presents the Company’s retail operations as adjusted to normalize the test year and on a pro forma basis after the effect of the proposed increase in retail rates. The Staff computed retail net operating income for return of $316,914,000 and a retail rate base of $3,626,305,000. The Staff computed a rate of return on retail rate base of 8.74% after the effect of the proposed increase.

Q. WOULD YOU PLEASE BRIEFLY DESCRIBE THE OTHER ACCOUNTING EXHIBITS THAT ARE ATTACHED TO YOUR SUPPLEMENTAL TESTIMONY?

A. Audit Exhibit A-1 details the retail electric accounting and pro forma adjustments that changed as a result of the settlement agreement.

Audit Exhibit A-2 details the Staff's computation of the Company's customer growth as a result of the settlement agreement.

Audit Exhibit A-5 provides a calculation of the Company's return on common equity on a retail basis before and after the effect of the proposed increase as a result of the settlement agreement. The rate base, as shown on Exhibit A, is allocated among the various classes of debt and equity, excluding short-term debt, according to their respective ratios as computed using the Company's total capital structure as of August 31, 2004. The amount of retail as adjusted net income for return needed to cover embedded cost rates on long-term debt of 6.56% was computed by Staff to be $111,711,000.

The amount of as adjusted retail income for return needed to cover embedded cost rates on preferred stock of 6.40% was computed by the Staff to be $6,336,000. The as adjusted retail rate of return on common equity was computed by the Staff to be 8.78%. The as adjusted overall rate of return was computed to be 7.67%. Such overall return equals the rate of return on rate base shown on Staff's Exhibit A. After the proposed retail increase, the return on common equity was computed to be 10.90%. The overall rate of return was computed to be 8.74% after the effects of the proposed increase. Such overall return equals the rate of return shown on Staff's Exhibit A after the proposed retail rate increase.

Q. MS. SCOTT, DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes, it does.